

BELLSOUTH

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Executive Director - Federal Regulatory

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July 8, 1996

Ex Parte

EX PARTE OR LATE FILED

Mr. William F. Caton
Acting Secretary
1919 M Street N.W., Room 222
Federal Communications Commission
Washington, D.C. 20554

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JUL 8 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

RE: CC Docket No. 96-98

Dear Mr. Caton:

The attached documents concerning state commission activity regarding resale have been provided to the Commission at the request of staff in connection with the above-referenced proceeding. The two documents attached are a copy of the Georgia Public Service Commission order dated June 11, 1996 in Docket No. 6352-U and BellSouth Telecommunications Inc.'s June 21, 1996 Motion for Reconsideration and Clarification of the Georgia Commission's June 11 order.

In its motion, BellSouth demonstrates that the Georgia resale discounts violate the pricing standards set forth in the Telecommunications Act 1996. In its order, the Georgia Commission incorrectly used "avoidable" costs instead of "avoided" costs to establish the resale discounts. This standard is clearly inconsistent with the Act.

Please call me if you have any questions.

Sincerely,



W.W. (White) Jordan
Executive Director - Federal Regulatory

Attachments

cc: Richard Metzger
Jim Schlichting
Frank Hopwood

No. of Copies rec'd
List ABOVE

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COMMISSIONERS:

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STAN WISE



DOCKET# 6352
DOCUMENT# 11331

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Georgia Public Service Commission

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DOCKET NO. 6352-U

IN RE: **Petition of AT&T for the Commission to Establish Resale Rules,
Rates, Terms and Conditions and the Initial Unbundling of Services**

Record Submitted: March 4, 1996
March 5, 1996
April 1, 1996
April 2, 1996
April 3, 1996

Decided: May 29, 1996

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APPEARANCES

Executive Secretary
Ga. Public Service Commission

On Behalf of the Commission Staff:

Nancy Gibson, Special Assistant Attorney General
David L. Burgess, Director, Rates and Tariffs

On Behalf of the Consumers' Utility Counsel:

Jim Hurt, Attorney
Bill Atkinson, Attorney

On Behalf of AT&T of the Southern States, Inc. :

Roxanne Douglas, Attorney

On Behalf of BellSouth Telecommunication, Inc. :

William J. Ellenberg, II, Attorney
Douglas Lackey, Attorney
Tom Alexander, Attorney

On Behalf of Cable Television Association of Georgia:

Laura Nix, Attorney

On Behalf of BellSouth Advertising and Publishing Company:

Michael S. Bradley, Attorney

On Behalf of MCI Telecommunications Corporation:

David Adelman, Attorney
Marsha Ward, Attorney

On Behalf of Sprint Communications Company, L.P. :

Benjamin Fincher, Attorney
Carolyn Tatum Roddy, Attorney

On Behalf of MFS Intelenet of Georgia, Inc. :

James Falvey, Attorney

On Behalf of ACSI:

James Rice, Attorney

On Behalf of Southern Directory and Georgia Public Communications Association:

Dean R. Fuchs, Attorney

BY THE COMMISSION:

INTRODUCTION

The Georgia Public Service Commission ("Commission") is charged with implementing and administering Georgia's new Telecommunications and Competition Development Act of 1995, O.C.G.A. § 46-5-160 *et seq.* (hereafter "the Georgia Act"). As a part of this responsibility, the Commission shall determine the reasonable rates, terms or conditions for the purchase or resale of local exchange service, and the Commission shall have the authority to require local exchange companies to provide additional interconnection services and unbundling.

Under O.C.G.A. § 46-5-164(e), any local exchange company or telecommunications company desiring to purchase or resell services purchased from another local exchange company may petition the Commission for the authorization to purchase or resell such services. On December 21, 1995, AT&T Communications of the Southern States, Inc. ("AT&T") filed a petition with the Commission requesting the establishment of rules, rates, terms and conditions for the resale of telecommunications services as provided by the Georgia Act. AT&T also sought an initial unbundling of services pursuant to the Commission's express authority under O.C.G.A. § 46-5-164(g).

On February 6, 1996, the Commission adopted a Procedural and Scheduling Order in this docket which outlined the manner in which this proceeding would be conducted. Subsequent to AT&T filing its petition in this docket, on February 8, 1996, the Telecommunications Act of 1996 ("the Federal Act") became law. Pub. L. No. 104-104, 110 Stat. 56 (Feb. 8, 1996). The 1996 Federal Act makes sweeping changes in telecommunications, laying the groundwork for competition to grow nationally in the local exchange market. The Federal Act requires incumbent Local Exchange Carriers (LECs) to "offer for resale at wholesale rates any telecommunications service that the carrier provides at retail to subscribers who are not telecommunications carriers." (Section 251(c)(4)(A)). The Federal Act further requires that a State Commission shall determine wholesale rates for those incumbent LEC services available for resale. (Section 252(d)(3)).

The Consumers' Utility Counsel ("CUC"), BellSouth Telecommunications Inc. ("BellSouth"), Cable Television Association of Georgia ("CTAG"), BellSouth Advertising and Publishing Company ("BAPCO"), MCI Telecommunications Corporation ("MCI"), Sprint Communications Company ("Sprint"), ATA Communications, Inc. ("ATA"), MFS Intelenet of Georgia, Inc. ("MFS"), American Communications Services of Columbus ("ACSI"), Competitive Telecommunications Association ("COMPTEL"), Southern Directory and Georgia Public Communications Association ("GPCA") filed intervention notices in this docket. Hearings were held March 4-5, 1996, and April 1-3, 1996. Post-hearing briefs were filed on April 16, 1996, by AT&T, CUC, BellSouth, MCI, COMPTEL, Sprint, MFS and BAPCO.

FINDINGS OF FACT, CONCLUSIONS OF LAW AND DECISIONS OF REGULATORY POLICY

Based upon the entire record in this proceeding, including those matters incorporated by reference, the Commission hereby renders the following findings of facts, conclusions of law, and decisions of regulatory policy:

JURISDICTION

Jurisdiction is proper with the Commission and the Commission has authority to render a decision in this matter pursuant to O.C.G.A. § 46-5-164(e) and § 46-5-164(g).

AT&T's petition specifically requests that the Commission (1) establish resale rules, (2) establish the rates, terms and conditions for resale as authorized by the Georgia Act, including the appropriate wholesale rates and the guidelines for operational interfaces, (3) require the initial unbundling of operator services, directory assistance and appropriate routing of repair calls, and (4) adopt the Total Wholesale Service tariff for providing wholesale services to resellers as proposed by AT&T.

The Company's petition rightfully notes that unlike interconnection services, the Georgia Act does not require negotiations to establish the rates, terms and conditions for resale of telecommunications services prior to petitioning the Commission for these purposes. AT&T and BellSouth have engaged in multiple negotiations sessions over a four month period concerning resale and other matters pertinent to local competition in Georgia. AT&T has been unable to reach an agreement with BellSouth that will allow AT&T to enter the local exchange market. The Commission finds that AT&T filed this petition seeking relief from the Commission after unsatisfactory lengthy negotiations with BellSouth.

On March 12, 1996, the Commission issued a memorandum to all parties of record requesting that they submit to the Commission their assessment of the impact of the Federal Act on the Commission's ability to grant the relief sought by AT&T in the manner set forward in the Company's petition and supporting prefiled testimony. Several parties responded to the Commission's request.

Section 251(c)(1) of the Federal Act provides that an incumbent LEC has the duty to negotiate in good faith on various local competition issues including resale of services and the unbundling of network elements. Under Section 251(c)(4) of the Federal Act, incumbent local exchange carriers must offer for resale any telecommunications service that the carrier provides at retail to subscribers who are not telecommunications carriers. Section 252(d)(3) of the Federal Act requires the Commission to arbitrate failed negotiations on resale and directs the Commission to determine wholesale rates for services to be resold. With regard to unbundling, an incumbent LEC has a duty under Section 251(c)(3) of the Federal Act to provide any requesting telecommunications carrier, nondiscriminatory access to network elements at any technically feasible point on an unbundled basis at rates, terms, and conditions that are just, reasonable, and nondiscriminatory.

O.C.G.A. § 46-5-164(e) provides that in cases where the purchase or resale of services purchased is authorized by the Commission, the Commission shall determine the reasonable rates, terms, or conditions for the purchase or resale. O.C.G.A. § 46-5-164(g) further provides that the Commission shall have the authority to require local exchange companies to provide additional interconnection services and unbundling.

The Federal Act states at Section 261(b) that: "[n]othing in this part shall be construed to prohibit any State Commission from enforcing regulation prescribed prior to the date of the enactment of the Telecommunications Act of 1996, or from prescribing regulations after such date of enactment, in fulfilling the requirements of this part, if such regulations are not inconsistent with the provisions of this part." The Commission finds that no material conflicts exist between the two Acts with regard to resale and to unbundling. Generally the Federal Act is more specific with regard to the requirements for resale and unbundling, while the Georgia Act leaves these matters for the Commission to decide.

SERVICES AVAILABLE FOR RESALE

Several parties presented testimony regarding what services should be made available for resale. Specifically, AT&T requested that all existing retail services, including grandfathered service offerings and new services as they are available be offered for resale. MCI presented testimony which stated that services available for resale should also include any discounted retail service, discount package, or promotional offering. BellSouth advocated that grandfathered services, promotional offerings, and certain discount packages should not be made available for resale. Other parties encouraged the Commission to adopt the standard contained in Section 251(c)(4)(A) of the Federal Act.

The Commission finds that all existing retail services sold to non-telecommunications providers except those services which are presently grandfathered shall be made available for resale. This includes any discounted retail service, discounted package, and new service offerings as they become available. Promotions are not included because they are not tariffed offerings. Grandfathered services shall not be available for resale. These services by definition are no longer available to any new subscription. To allow grandfathered services to be resold would serve to undermine this basic definition. The Commission finds that it shall continue to monitor the grandfathered provision and the offering of special promotions to insure that they are implemented in a way that is consistent with existing Commission policy.

RESTRICTIONS ON RESOLD SERVICES

AT&T advocated that the Commission impose limited restrictions on services resold. All parties presented similar testimony requesting that the Commission adopt certain class of service restrictions and the interLATA joint marketing restriction contained in the Federal Act. Generally, parties agreed that it would be necessary for the Commission to impose a restriction on resale between classes of local service, such as resale of residential local exchange service to business customers. Sprint noted in its prefiled testimony that: "[t]he price differential between business and residential customers would collapse unless resale between these classes is restricted or until local rates are rebalanced to eliminate the differential between business and residential customers." (Tr. at pp. 657-658).

Section 271(e)(1) of the Federal Act provides that until a Bell operating company is authorized to provide interLATA services in an in-region State, or until 36 months have passed since the date of enactment of the Telecommunications Act of 1996, whichever is earlier, a telecommunications carrier that serves greater than 5 percent of the nation's presubscribed access lines may not jointly market in such State telephone exchange service obtained from such company with interLATA services provided by that telecommunications carrier.

The Commission finds that it shall impose class of service restriction on the resale of all retail service offerings. In addition the Commission finds that it shall adopt the interLATA joint marketing restriction contained in the Federal Act.

WHOLESALE SERVICES TARIFF

AT&T witness Guedel included as an attachment to his prefiled testimony an "illustrative" Total Wholesale Services Tariff for providing wholesale services to resellers as proposed by the Company. The proposed tariff included limited terms and conditions for the wholesale provisioning of resold services. AT&T requested that the Commission adopt specific provisions which included a 90 day advance notice on new offerings and 30 day advance notice on promotions. Several parties presented testimony requesting that a separate wholesale tariff be established.

The Commission finds that AT&T's "illustrative" Total Wholesale Tariff is simply that, "illustrative" and therefore incomplete, inadequate and shall not be adopted. The Commission further finds that AT&T's request to establish a 90 day advance notice on new service offerings has not been adequately supported. BellSouth shall be required to file a separate complete Wholesale Tariff containing the rates, terms and conditions for all services provided. This initial filing as well as proposed revisions shall be subject to Commission approval. All proposed revisions to this tariff shall comply with the existing 30 day filing requirement. BellSouth shall continue to comply with the existing provision in its General Subscriber Service Tariff which requires a 30 day notice to the Commission on all promotional offerings.

AVOIDED COST METHODOLOGY

The Federal Act provides that State Commissions shall set wholesale prices for telecommunications services on the basis of retail rates charged to subscribers for the telecommunications services requested, excluding the portion thereof attributable to any costs that will be avoided by the local exchange carrier. (Section 252(d)(3)).

All parties generally agreed that the Federal Act standard is the appropriate basis for the Commission to determine wholesale rates; however several parties did provide their own unique interpretation of what that standard means. Sprint witness Key advocated that the Commission determine "net" avoided cost utilizing Total Service Long Run Incremental Cost (TSLRIC). Several parties recommended the Commission determine avoided cost using readily available embedded cost information. MFS and CUC also recommended the Commission adopt a "net" avoided cost approach. Under this approach, determination of avoided cost would include any added costs of providing a service at wholesale. BellSouth witness Maddox presented testimony that: "[i]n our study, we looked at the costs that BellSouth would avoid making services available for resale. We did not take into account the increased costs that would occur for offering the services on a resale basis." (Tr. at pp. 523-524). MCI witness Dr. Ankum's prefiled testimony indicated that any "net" avoided cost should be recovered in the service mark-up. (Tr. at pp. 842).

ATA witness Schwartz recommended that the Commission establish a lower wholesale rate for an extended term agreement than for a short-term arrangement. ATA advocates that "[t]he wholesale rate in an extended resale agreement must reflect the downward pressure on retail price and the upward pressure on marketing and sales costs that will result from increased competition in the local exchange market." (Tr. at pp. 708). MFS and Sprint also recommended wholesale rates be established service by service. Testimony presented by BellSouth and Sprint encouraged the Commission to establish separate discounts for residential and business wholesale services to reflect the current differentials which exist between similar retail offerings.

The Commission finds that the Federal Act standard is the appropriate method to determine avoided cost. The Commission rejects the argument of "net" avoided cost forwarded by several parties. Evidence presented in this docket indicates that TSLRIC studies for the items in question have not been conducted and to do so would require several months. The Commission shall initially use embedded cost information to determine avoided cost as specified in the Federal Act. The Commission further finds that a separate discount shall be determined for each customer class and the discount shall apply equally to all services in BellSouth's wholesale tariff. The Commission finds that negotiated agreements may reflect additional discounts for longer terms.

WHOLESALE DISCOUNT RATE

AT&T and BellSouth were the only parties who presented an avoided cost study in this docket. AT&T's study yielded an overall wholesale discount rate of 28.3%. BellSouth's study resulted in a 11% discount for residential wholesale offerings and a 9.5% discount for business services. MCI, ATA, and COMPTTEL did not conduct their own study, but generally supported AT&T's avoided cost study results. CUC recommended that the Commission establish a floor level discount reflective of the BellSouth cost study results, and maintain a ceiling discount of 20% as ordered by the Illinois Commerce Commission. MFS did not conduct its own study, but cautioned the Commission that deep discounts discourage the beneficial development of facilities-based competition. MFS further stated that BellSouth's estimate of avoided cost are more consistent with the underlying principles of the Federal Act.

A review of AT&T's avoided cost study finds the Company utilizes embedded expense and revenue data which BellSouth reported to the Federal Communications Commission (FCC) in the 1994 Automated Report Management Information System (ARMIS), specifically Reports 43.03 and 43.04. AT&T's cost model removes all or some portion of direct and indirect costs which AT&T believes are avoided when selling services wholesale. The AT&T study shows direct costs avoided as follows: 100% of the cost for uncollectibles, 100% of the expenses associated with marketing, sales, and advertising and billing, and 20% of the Operator-Testing and Operator-Plant Administration expenses. AT&T's study also shows avoided cost to include 100% of operator related costs, such as call completion and number services functions. AT&T maintains that these functions will be performed by the Company's own operators.

There are also indirect costs which AT&T's Cost Model shows as avoided. These include 21.73% of various General and Administrative expenses--including corporate expenses, finance, regulatory, legal, taxes, depreciation, general support, network support, research and development, and other general and administrative expenses. AT&T's Cost Model yields a 28.3% wholesale discount.

BellSouth's Avoided Cost Model used that company's actual 1995 year-end financial data for the state of Georgia as reflected in the FR-1 report and the MR-5. BellSouth's study reflects avoided cost in the categories of uncollectibles, marketing, sales, and customer service. BellSouth's Cost Model does not reflect any avoided cost in advertising, product management, call completion services, number services, or indirect cost. BellSouth's study contains avoided cost of \$12,396,537 for uncollectibles, \$39,906,057 for marketing and sales, and \$84,823,776 for customer services. The total avoided costs included in BellSouth's study are \$137,126,370. This computed level of avoided cost represents only 6.7% of the total expenses (\$1,995,838,130) incurred by BellSouth for its Georgia operations during 1995. In other words, the Company has deemed 93.3% (\$1,861,747,721) of its total expenses as unavoidable. BellSouth maintains that the appropriate wholesale discounts are 11% for residential and 9.5% for business.

Herein lies the fundamental difference between the parties regarding the cost that should be reflected in the determination of BellSouth's wholesale discount. BellSouth, MFS, and other supporting parties argue that the discount should reflect the costs that are actually avoided when provisioning wholesale local services. AT&T, MCI, ATA and COMPTTEL advocate that all costs that are avoidable, whether or not they are actually avoided, should be reflected in the determination of the wholesale discount.

The Federal Act states that a resale discount should reflect the:

"[r]etail rates charged to subscribers for the telecommunications service requested, excluding the portion thereof attributable to any marketing, billing, collection, and any other costs that will be avoided by the local exchange carrier." (Section 252(d)(3)).

BellSouth has interpreted the relevant portion of the Federal Act relating to the determination of a wholesale discount in a very strict manner. BellSouth maintains that many functions now performed for the provisioning of retail services will not be avoided in a resale environment. The Company believes that significant advertising, sales, and other related expenses will not be avoided in a wholesale situation. BellSouth's position reflects a narrow, constrained view of an avoided cost approach.

AT&T and its supporting parties have taken a broader interpretation of the language in the Federal Act, arguing that avoidable cost is the standard mandated by the recently passed Federal legislation. Under this approach avoidable cost include not only direct cost, but also indirect cost and resulting overheads associated with an avoided job function. AT&T's position supports the inclusion of expenses such as depreciation, administrative expense and corporate overhead to the extent that they are avoidable.

While neither approach is inherently precise, the Commission finds that in this instance a forward-looking avoidable cost approach yields more relevant and reliable results than a historical based avoided cost approach. This view holds particularly true in light of the sweeping changes taking place in the telecommunications industry. ATA witness Schwartz noted: "[i]s it not true that BellSouth has been downsizing and that the very downsizing they're doing should and is being created by competition and resale, and that this cost should be reflected in deriving that avoided cost? I think it's an important issue and I think it's one that should be taken into consideration as part of the wholesale rate." (Tr. at pp. 699). BellSouth's strict avoided cost approach would potentially inhibit or otherwise severely limit the development of a competitive local exchange market. The Commission's endorsement of such an approach would provide BellSouth with little incentive to reduce or shed costs which are actually avoidable. These potentially avoidable costs would continue to be subsidized by the Company's competitors; thereby virtually eliminating any form of meaningful competition.

AT&T's response to CUC's Hearing Request (hereinafter referred to as "AT&T Hearing Resonse"), filed April 1, 1996, reflects the status of the Rochester Telephone Company (RTC) trial where AT&T has ceased marketing its competing local services. On October 3, 1995, AT&T filed a complaint with the New York Commission seeking relief for reasons of price and service provisioning. The Complaint states: "[t]he RTC 5% wholesale discount on local service is precisely such a commercially unreasonable discount. It is noteworthy that the discount is so patently inadequate that only AT&T has even attempted to offer services on a resale basis pursuant to its terms." (Petition of Rochester Telephone Corporation for Approval of Restructing Plan Case 93-C-0103 N.Y.P.S.C., Petition of Rochester Telephone Corporation for Approval of a New Multi Year Rate Stability Agreement Case 93-C-0033 N.Y.P.S.C., AT&T Communications of New York, Inc. Complaint, Petition For Declaratory Judgement and for Reconsideration of Opinion No. 94-25 N.Y.P.S.C., page 5).

The Commission finds that BellSouth's Avoided Cost Model represents a sound mathematical approach toward computing a wholesale discount. The data utilized to compile the study represents the most recent year-end information available for BellSouth's Georgia operations. The Commission finds that BellSouth does not properly account for certain expenses that are reasonably avoidable. The Commission finds that the data contained in the AT&T Cost Model is dated information and to some degree jurisdictionally mixed. The Commission finds that the AT&T study overstates certain avoidable costs. The Commission finds that it is both necessary and prudent to revise the avoided cost contained in BellSouth's study to determine an appropriate wholesale discount.

Appendix 1 reflects the calculations supporting the wholesale discount adopted by the Commission and a narrative explaining the adjustments made to BellSouth's Avoided Cost Model. Based on the results of the computation, the Commission finds that the appropriate wholesale discount is 20.3% for residential services and 17.3% for business services. The Commission finds that these discounts shall apply to all recurring, non-recurring and intrastate toll retail offerings. The Commission finds that the currently tariffed non-recurring charges for primary and secondary services with the appropriate discount will apply to resellers (See BellSouth's Response to Staff Hearing Request No. 3 to Lorraine Maddox, page 1 of 1). The Commission finds that these levels shall remain in effect for a 12 month period. At the end of this 12 month period, the Commission shall conduct a review to determine if the need exists to modify these initial discount levels.

OPERATIONAL INTERFACES

AT&T has specifically requested that the Commission require BellSouth to establish electronic operational interfaces for pre-service ordering, service ordering and provisioning, directory listing and line information databases, service trouble reporting and customer daily usage data. The Company has also requested that the Commission apply an additional 10% discount for BellSouth's failure to comply with the establishment of electronic interfaces. AT&T is supported in its request by MCI, ATA, and Sprint. AT&T's Hearing Response reflects service provisioning concerns raised by the Company in its October 3, 1995 complaint filed against RTC with the New York Commission "AT&T is severely disadvantaged due to the fact that RTC has failed to provide procedures for resellers to access the RTC databases for on-line queries needed to perform basic service functions as scheduling customer appointments." (Petition of Rochester Telephone Corporation for Approval of Restructuring Plan Case 93-C-0103 N.Y.P.S.C., Petition of Rochester Telephone Corporation for Approval of a New Multi Year Rate Stability Agreement Case 93-C-0033 N.Y.P.S.C., AT&T Communications of New York, Inc. Complaint, Petition For Declaratory Judgement and for Reconsideration of Opinion No. 94-25 N.Y.P.S.C., page 12). ATA witness Schwartz testified: "[m]y concern is how do we now proceed to interface into their system, how do we provision those customers now with them. If we can't do it electronically, it's just going to be a disaster." (Tr. at pp. 721).

BellSouth witness Scheye acknowledges that: "[n]o one is happy, believe me, with a system that is not fully electronic." (Tr. at pp. 430). Further testimony by Scheye indicates that: "[i]n the initial stages we plan to use fax machines....." (Tr. at pp. 429). MFS and BellSouth recommended that the Commission delay the establishment of electronic interfaces until after national standards are set.

The Commission finds that AT&T's request is timely and appropriate in that it is imperative that a reseller have access to the same service ordering provisions, service trouble reporting and informational databases for their customers as does BellSouth. The Commission finds that BellSouth shall establish the requested operational interfaces by July 15, 1996. AT&T's request for an additional 10% discount is denied. The Commission finds that access to these interfaces shall be made available to any requesting party at the same terms and conditions.

DIRECTORIES

AT&T has also requested that the Commission establish certain provisions regarding the maintenance of telephone directories. The Company has specifically requested that (1) BellSouth be required to include basic white page listings for resellers' residential and business customers as well as yellow page listings for business customers; (2) additional or enhanced listings be made available to the reseller at the same rates, terms and conditions as available to BellSouth customers; (3) BellSouth make directory listing data available for purchase so that the reseller can package and brand its own white and yellow page directories and; (4) resellers be afforded the opportunity to place local customer service information in BellSouth's directories.

BellSouth witness Scheye presented testimony that indicates that for all directory matters other than insertion of regular listings in the white pages, arrangement will be made with BellSouth's directory affiliate, BAPCO. The brief filed by BAPCO on April 16, 1996, reflects a similar position. BAPCO appropriately notes: "[t]his Commission historically has not asserted jurisdiction over publishing of Yellow Pages." (BAPCO brief). BAPCO has indicated an express willingness to provide the additional directory arrangements requested by AT&T. MFS, Sprint, MCI, ATA, COMPTTEL and CUC did not take a position on this issue.

The Commission finds that BellSouth shall include white page listings for all new resellers' customers in its directory. All other directory arrangements requested by AT&T should be pursued with BellSouth's service agent BAPCO.

UNBUNDLED OPERATOR SERVICES

AT&T has requested the ability to purchase from BellSouth "branded" operator services (including directory assistance, 0+, 0- toll dialing, busy line verification and interrupt). Alternatively the Company has requested that BellSouth be ordered to provide selective routing arrangements that will enable an AT&T customer to reach an AT&T operator platform just as a BellSouth customer can reach a BellSouth operator today. MFS and Sprint support AT&T's request. Sprint further recommended that custom branding for resellers is a service resellers should pay for, and some branding requests may not be technically feasible.

BellSouth witness Scheye testified that the Company stands ready to unbundle any network elements required by telecommunications carriers where technically feasible. BellSouth advocates that embedded cost should be utilized in determining the cost of an unbundled network element. MCI, CUC, COMPTel, and ATA did not take a position on this issue.

The Commission finds that AT&T's request is valid and reasonable. The Commission finds that the ability of a competing carrier to utilize their own operators or custom "branded" operator services will enhance the ability of that entity to effectively compete. However, sufficient evidence was not presented by the parties regarding technical limitations, implementation cost and cost recovery. Accordingly, until the parties are able to present credible evidence on these issues, the Commission cannot grant AT&T's request.

The Commission directs that AT&T and BellSouth submit a joint report to the Commission which addresses a resolution of these outstanding issues. If the parties do not reach an agreement on these issues, each party should reflect their positions and factual evidence which supports same in the body of the report. Absent a resolution, this report shall be used as a primary basis for a Commission decision regarding this matter.

WHEREFORE, IT IS:

ORDERED that all existing retail services sold to non-telecommunications providers except those services which are presently grandfathered shall be made available for resale. This includes any discounted retail service, discounted package, and new service offerings as they become available. Promotions are not included because they are not tariffed offerings. The Commission shall continue to monitor the grandfathered provision and the offering of special promotions to insure that they are implemented in a way that is consistent with existing Commission policy.

ORDERED FURTHER, that the Commission shall impose class of service restriction on the resale of all retail service offerings. In addition, the Commission shall adopt the interLATA joint marketing restriction contained in the Federal Act.

ORDERED FURTHER, that within 30 days of the issuance of this Order BellSouth shall be required to file a separate complete Wholesale Tariff containing the rates, terms and conditions for all services provided. This initial filing as well as proposed revisions shall be subject to Commission approval. All proposed revisions to this tariff shall comply with the existing 30 day filing requirement. BellSouth shall continue to comply with the existing provision in its General Subscriber Service Tariff which requires a 30 day notice to the Commission on all promotional offerings.

ORDERED FURTHER, that the Federal Act standard of retail rates excluding avoided cost is the appropriate bases to determine wholesale rates. The Commission shall initially use embedded cost information to determine avoided costs as specified in the Federal Act. A separate discount shall be determined for each customer class and the discount shall apply equally to all services contained in BellSouth's wholesale tariff. Negotiated agreements may reflect additional discounts for longer terms.

ORDERED FURTHER, that the appropriate wholesale discount is 20.3% for residential services and 17.3% for business services. These discounts shall apply to all recurring, non-recurring and intrastate toll retail offerings. The currently tariffed non-recurring charges for primary and secondary services with the appropriate discount shall apply to resellers. These discount levels shall remain in effect for a 12 month period effective June 15, 1996. At the end of this 12 month period, the Commission shall conduct a review to determine if the need exists to modify these initial discount levels.

ORDERED FURTHER, that BellSouth shall establish electronic operational interfaces for pre-service ordering, service ordering and provisioning, directory listing and line information databases, service trouble reporting and daily usage data by July 15, 1996. AT&T's request for an additional 10% discount is denied. Access to these interfaces shall also be made available to any requesting party at the same terms and conditions. These interfaces shall provide access to resellers for their customers which is equivalent to that of the incumbent LEC. BellSouth and AT&T shall submit a joint report to the Commission within 30 days after this Order is issued which will update the activities and implementation time frames necessary to deploy these interfaces.

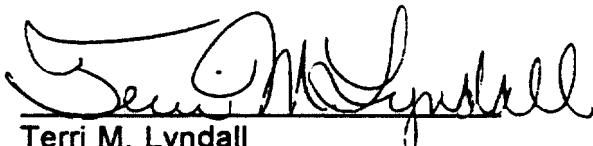
ORDERED FURTHER, that BellSouth shall include white page listings for all new resellers' customers in its directory. All other directory arrangements requested by AT&T should be pursued with BellSouth's service agent BAPCO.


ORDERED FURTHER, that AT&T and BellSouth are directed to submit a joint report to the Commission within 30 days of the issuance of an Order in this docket which addresses a resolution of outstanding issues relative to AT&T's provision of its own operator services. If the parties do not reach an agreement on these issues, each party should reflect their position and factual evidence which supports same in the body of the report. Absent a resolution, this report shall be used as a primary basis for a Commission decision regarding this matter

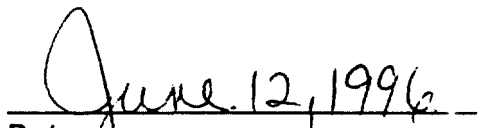
ORDERED FURTHER, that a motion for reconsideration, rehearing, or oral argument or any other motion shall not stay the effective date of this Order, unless otherwise ordered by the Commission.


ORDERED FURTHER, that jurisdiction over this matter is expressly retained for the purpose of entering such further Order or Orders as this Commission may deem just and proper.

The above action by the Commission in Special Administrative Session on the 29th day of May, 1996.


Terri M. Lyndall
Executive Secretary


Dave Baker
Chairman


Date


Date

CALCULATIONS SUPPORTING WHOLESALE DISCOUNT LEVEL

Appendix 1

The wholesale discount level was calculated utilizing the Avoided Cost Discount Model proposed by BellSouth witness Frank R. Kolb. The basis equation contained in Mr. Kolb's model is reflected below:

$$\% \text{ DISCOUNT} = \frac{\text{COST AVOIDED AS A RESULT OF RESALE}}{\text{REVENUE FROM RESOLD SERVICES}} \times 100$$

The Commission has made adjustments to the avoided cost calculated by Mr. Kolb to reflect additional avoided cost for sales, advertising, call completion services, number services and an assignment of indirect cost associated with the direct cost allocation contained in BellSouth's calculations. The numerical information utilized to make these adjustments was derived from Staff data requests submitted in the context of the public hearing regarding this matter.

The first adjustment the Commission made to BellSouth's avoided cost calculation is to recognize additional avoided cost associated with Sales. The Company's study included \$39,906,057 as avoided cost for Sales. This represents 61% of the total sales expense incurred by BellSouth's Georgia Operations for 1995. The Commission has included in its calculation avoided cost for Sales of \$48,675,614. This represents 75% of the total sales expense incurred by the Company. After reviewing BellSouth's Account Records Categories for Sales (Account 6612) the Commission finds that many of the representative work functions contained therein will be avoided in a resale environment. The Commission finds that the recommended avoided cost associated with Sales contained in this calculation is conservative at best.

The Commission finds that it is reasonable to assume that there is a direct correlation between Sales and Product Advertising. BellSouth did not include any product advertising cost as avoidable in their study. The Company incurred product advertising expense of \$17,566,591 for year-end 1995. The Commission finds that in order to remain consistent in its approach, it is appropriate and reasonable to conclude that 75% of the total product advertising cost will be avoided. This yields avoided Product Advertising cost of \$13,174,943. Likewise, a review of the Company's Account Records Categories for Product Advertising (Account 6613) reveals that many of these work functions will be avoided in the wholesale provisioning of services.

Several parties in this docket indicated their intention to utilize their existing operators to provide local operator and call completion services (i.e., 0+, 0-, Directory assistance). BellSouth's study did not include any avoided cost related to Call Completion and Number Services which are expense categories directly related to the provision of operator services. The Commission has included \$3,031,565 in its calculation as avoided cost associated with Call Completion. This represent 25% of the total Call Completion expense incurred by the Company for 1995. Similarly, the Commission has included \$8,281,083 in its calculation as avoided cost related to Number Services. This represents 25% of the total Number Service Expense incurred by BellSouth. The Commission finds that a 25% allocator represents a reasonable initial assignment of cost that will be avoided. Potentially, avoided cost in these areas may grow as competitors' call completion traffic increases.

The final adjustment the Commission made to the BellSouth cost study relates to the assignment of indirect cost which will be avoided. The avoided cost identified in the Company's calculations are all related to directly assignable cost. BellSouth did not reflect any indirect cost such as General Support, Administrative, or Corporate Operations in its study. The total avoided cost included in the Company's study is \$137,126,370. The total direct avoidable expense included in the Commission's calculations is \$170,383,518. The Commission finds that in keeping with its forward-looking approach, it is reasonable to reflect a level of indirect avoidable cost associated with the direct avoidable cost previously identified and calculated.

A review of previous cost studies submitted by BellSouth to the Commission reflect a range for indirect cost as a percentage of direct cost to be 30% to 50%. The Commission finds that it is reasonable to calculate the indirect avoided cost using a 50% factor. This yields an additional avoidable expense of \$85,191,759. This level represents less than 5% of the total expense (\$1,861,747,721) BellSouth deemed unavoidable. The Commission finds that as with all the previous adjustments made to BellSouth's study, this estimate of indirect avoidable cost is extremely conservative. The total avoidable cost (direct and indirect) calculated by the Commission is \$255,575,277.

The Commission utilized the same total revenues from resold services as contained in the BellSouth study. The study contains residential revenues in the amount of \$653,955,846 and business revenues of \$709,781,717. The total revenues contained in the study are \$1,363,737,563. The Company's study reflect that 52% of its total calculated avoided cost is attributable to residential services and 48% to business services. The Commission utilized these same percentages in calculating its separate residential and business wholesale discounts.

The Commission's Approved Discount Levels Are Calculated Below:

$$\begin{array}{rcl} \text{RESIDENTIAL DISCOUNT} = & \frac{\$132,899,144}{\$653,955,846} & \times 100 = 20.3\% \end{array}$$

$$\begin{array}{rcl} \text{BUSINESS DISCOUNT} = & \frac{\$122,676,133}{\$709,781,717} & \times 100 = 17.3\% \end{array}$$

William J. Ellenberg II
General Counsel - Georgia

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June 21, 1996

Ms. Terri M. Lyndall
Executive Secretary
Georgia Public Service Commission
244 Washington Street, S.W., Room 154
Atlanta, Georgia 30334-5701

RE: Petition of AT&T for the Commission to Establish Resale Rules,
Rates, Terms and conditions and the Initial Unbundling of Services
Docket No. 6352-U

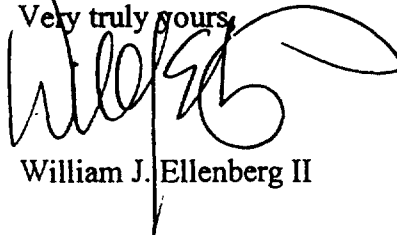
Dear Ms. Lyndall:

Enclosed for filing with the Commission are the original and 24 copies of
BellSouth Telecommunications, Inc.'s Motion for Reconsideration and Clarification in the
above-referenced matter.

I would appreciate your filing this Motion with the Commission, and returning to
me in the self-addressed stamped envelope provided a file-stamped copy of same.

Thank you for your assistance in this matter.

Very truly yours,



William J. Ellenberg II

Enclosures

BEFORE THE
GEORGIA PUBLIC SERVICE COMMISSION

IN RE: Petition of AT&T for the)	
Commission to Establish Resale Rules,)	Docket No. 6352-U
Rates, Terms and Conditions and the)	
Initial Unbundling of Services)	

BellSouth Telecommunications, Inc.'s
Motion for Reconsideration and Clarification

BellSouth Telecommunications, Inc., ("BellSouth" or the "Company") pursuant to O.C.G.A. § 46-2-51 and § 515-2-1.08 of the Rules of the Georgia Public Service Commission ("Commission") moves the Commission to reconsider its Order dated June 12, 1996, ("Order") in the above-styled docket. In particular, BellSouth urges the Commission to reconsider (1) the level of the discounts to be applied to retail rates to determine wholesale rates, and (2) its directions concerning the establishment of electronic interfaces to the operational support systems of the Company for use by resellers. In addition, BellSouth requests that the Commission clarify its intention as to what constitutes retail services which are available for resale, because the Commission's Order may be subject to differing interpretations.

In support of its motion, BellSouth shows the following:

Introduction

This is a motion for reconsideration. In many instances, a motion for reconsideration turns out to be simply a way station on the journey to the courts. In this case, BellSouth hopes the motion will provide a real opportunity to avoid a lengthy disagreement about fundamental issues affecting telecommunications services in this State. BellSouth knows that this

Commission is vitally interested in promoting competition in this state. It knows that the Commission's staff embraces that same goal. BellSouth supports competition and looks forward to the day when it will be allowed to be a full service provider, giving the citizens of Georgia and other states the opportunity to choose a world class telecommunications company as their service provider. With that said, the Commission's Order on resale is wrong, cannot be sustained either on the law or on the facts (even with the "any evidence" rule), and will not help the development of competition in this State. Instead, it will only serve to thwart competition in Georgia.

No doubt the usual cast of suspects will pay lip service to BellSouth's genuine belief that this Commission and its staff have the best of intentions, and scoff at BellSouth's inclusion of itself as a genuine supporter of competition. BellSouth would suggest, however, that the facts support BellSouth's conclusion. BellSouth would note that it is BellSouth who has entered into interconnection agreements with MCI, Time-Warner and a host of other companies -- agreements that will allow the interconnection of other competing telephone networks with BellSouth's network for as little as a penny a minute. It is BellSouth that has agreements with resellers who are providing service to subscribers today, not merely offering promises of what it will do in the future.

Importantly, BellSouth's chief protagonist in this docket, AT&T, simply can't make this claim. As this Commission knows, AT&T hasn't produced or entered into a single agreement with any local exchange company in this state, or for that matter, in this region, to provide local service either on its own or as a reseller. Based on the Commission's Order at page 4, there seems to be an implication that this failure has been caused by BellSouth. Even if AT&T wants to pretend that BellSouth is difficult to deal with, one must question whether AT&T also claims

that every other telephone company in the region is equally difficult. Where are AT&T's agreements with those carriers? How, if BellSouth is difficult to deal with, have Time-Warner, MCI and others reached their agreements with BellSouth? Moreover, in assessing who supports competition, this Commission should recall that AT&T (1) has direct connections to almost every central office in this state, (2) has historically produced and sold the very switches that BellSouth uses to provide local service, and (3) has switches in this state today. Has AT&T put this investment and expertise to work to furnish local service? No! Moreover, AT&T hasn't come forward with the first plan to offer real local service to the citizens of Georgia. Instead, it has petitioned this Commission for outrageous "discounts" on services already provided by BellSouth and other local exchange companies, so that it can make a profit at the expense of the local exchange companies. That kind of conduct should not be rewarded.

The Commission and its staff have recognized that what BellSouth has said is the truth. In the staff's recommendation and in this Commission's Order, at least with regard to the appropriate discounts for resold services, AT&T's purported study has been completely (and correctly) ignored, reflecting that it is simply not worthy of belief. BellSouth's difficulty then, and the significance of this motion for reconsideration, is understanding why this Commission would conclude that AT&T is entitled to the gift that the Commission's Order constitutes, particularly when there is simply no factual underpinning for it. BellSouth, on the following pages will address this issue in great detail, but the seminal question which the Commission should consider is this: Are the citizens and subscribers of this state better off in a situation where AT&T is only reselling services that are already available (and because of an erroneous discount, being allowed to profit at another carrier's expense), or would subscribers be better served by an order that encourages resale where it is economic to do so, but which encourages

AT&T and other carriers to develop their own facilities to provide services for Georgians?

BellSouth suggests that the answer to this question is obvious.

The factual and legal basis for the Motion

1. **The discount levels established by the Commission are not supported by the record, are arbitrary, are confiscatory and are in violation of federal and state law.**

They must be revised.

No one disagrees that local exchange companies have a duty "to offer for resale at wholesale rates, any telecommunications service that the carrier provides at retail to subscribers who are not telecommunications carriers." Section 251 (c) (4) of the Telecommunications Act of 1996. Similarly, no one disagrees that the wholesale rates must be determined "on the basis of retail rates charged to subscribers for the telecommunications service requested, excluding the portion thereof attributable to any marketing, billing, collection, or other costs that will be avoided by the local exchange carrier." Section 252 (d) (3) of the Telecommunications Act of 1996. This is the precise standard adopted by this Commission in this proceeding. Order at page 14. Finally, no one can disagree that the only two parties producing any study in this proceeding purporting to demonstrate the level of avoided costs were BellSouth and AT&T. The questions then are: (1) whether the Commission was correct when it identified additional "avoided costs" categories beyond those proposed by BellSouth; (2) whether there is any evidence to support the figures the Commission associated with those new cost categories; and (3) whether there is any